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Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 IO-13 AGRE-00 CEA-01 CIAE-00
COME-00 DODE-00 EB-08 FRB-03 H-01 INR-10 INT-05
L-03 LAB-04 NSAE-00 NSC-05 PA-01 CTME-00 AID-05
SS-15 STR-07 ITC-01 TRSE-00 ICA-11 SP-02 SOE-02
OMB-01 DOE-15 /126 W
----------010613 101911Z /40
R 091240Z JUN 78
FM AMEMBASSY ANKARA
TO SECSTATE WASHDC 2260
INFO AMEMBASSY PARIS
AMEMBASSY BONN
AMCONSUL ADANA
AMCONSUL ISTANBUL
AMCONSUL IZMIR

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USOECD

E.O. 11652 N/A
TAGS: EPAP, EFIN, IMF, TU
SUBJ: TURKEY'S IMF STANDBY PERFORMANCE

REF: ANKARA 4003

1. TWO ENCOURAGING INDICATIONS REGARDING TURKEY'S PERFORMANCE UNDER ITS IMF STANDBY WERE PUBLISHED THIS WEEK. THE FIRST WAS THAT CENTRAL BANK CREDIT TO THE PURLIC SECTOR DECLINED DURING THE LAST WEEK IN MAY TO TL 167.8 BILLION, WELL UNDER THE STANDBY CEILING OF TL 171 BILLION; THE SECOND WAS THAT THE AVERAGE GOVERNMENT SUPPORT PRICE FOR WHEAT DURING THE 1978/79 CROPS YEAR (BEGINNING JUNE 1) WAS SET AT TL 3.36 PER KILOGRAM, A NOMINAL INCREASE OF ONLY 20 PER CENT OVER THE PREVIOUS SEASON AND GENERALLY IN LINE WITH TURKEY'S PLEDGE IN ITS
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LETTE OF INTENT TO ESTABLISH SUPPORT PRICES FOR AGRICULTURAL EXPORT COMMODITIES AT LEVELS CONSISTENT WITH WORLD PRICES.

2. CENTRAL BANK CREDIT TO THE PUBLIC SECTOR, WHICH AVERAGED TL 171.1 BILLION DURING THE FIRST THREE WEEKS OF MAY, DECLINED BY ABOUT TL 3 BILLION TO TL 167.8 BILLION DURING THE LAST WEEK OF THE MONTH. SINCE ONLY THE CREDIT OUTSTANDING ON

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THE LAST REPORTING DAY OF EACH MONTH IN THE MAY-JULY PERIOD
IS USED IN CALCULATING THE STANDBY CEILING OF TL 171 BILLION,
THE CENTRAL BANK COULD THEORETICALLY EXPAND PUBLIC SECTOR
CREDIT BY ABOUT TL 3.2 BILLION IN JUNE AND A SIMILAR
AMOUNT IN JULY, AND STILL MEET ITS STANDBY TARGET.
OF COURSE, THESE CALCULATIONS ARE SUBJECT TO THE CAVEATS
IN PARA 4, REFTEL.

3. THE AVERAGE WHEAT SUPPORT PRICE OF TL 3.36 PER KILOGARM
IS THE EQUIVALENT OF ABOUT $135 PER METRIC TON AT THE CURRENT
EXCHANGE RATE OF $1.00 EQUALS TL 25. WHILE THIS PRICE IS
SLIGHTLY ABOVE CURRENT WORLD PRICES ($125-$130 A TON) IT IS
ABOUT 16 PER CENT BELOW LAST YEAR'S AVERAGE SUPPORT PRICE (TL 2.8
PER KG. OR $160 A TON AT THE TL 17.5 TO $1.00 EXCHANGE RATE).
ALTHOUGH THE LEVEL OF SUPPORT PRICES IS NOT A CONDITION FOR
CONTINUED DRAWING UNDER THE STANDBY, ESTABLISHING SUPPORT
PRICES FOR EXPORT PRODUCTS AT WORLD MARKET LEVELS WILL
HELP REDUCE THE CENTRAL GOVERNMENT BUDGET DEFICIT AND HELP
TO REDUCE INFLATIONARY PRESSURE.

4. LITTLE OF THIS YEAR'S CROP IS LIKELY TO BE EXPORTABLE
BEFORE DECEMBER OR JANUARY DUE TO THE PORT CONGESTION OF
EXPORTING LAST YEAR'S CROP. THEREFORE, IF ONE ASSUMES THAT
THE WORLD PRICE OF WHEAT DOES NOT FALL DRASTICALLY AND
THAT TURKEY DEPRECIATES ITS EXCHANGE RATE BETWEEN NOW AND THE
END OF THE YEAR, THEN ONE COULD EXPECT THE SOIL PRODUCTS
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OFFICE (TMO), WHICH HAS A MONOPOLY ON WHEAT EXPORTS, TO EARN
A PRIFIT ON ITS WHEAT EXPORTS AND REDUCE OR ELIMINATE ITS NEED
FOR CENTRAL BANK CREDIT TO FINANCE ITS OPERATIONS.

5. THE ANNOUNCEMENT OF THIS RELATIVELY LOW WHEAT SUPPORT
PRICE DREW IMMEDIATE CRITICISM FROM THE PRESIDENT OF THE
TURKISH UNION OF CHAMBERS OF AGRICULTURE, SADETTIN KARACABEY.
HE CONTENDED THAT WHEAT PRODUCTION COSTS HAD INCREASED 60 PER
CENT IN THE PAST YEAR SO THAT THE AVERAGE COST OF PRODUCTION
WAS NOW TL 3.65 PER KILOGRAM ($146 A TON). HE URGED THAT
THE FLOOR PRICE BE INCREASED TO TL 4.75 PER KILOGRAM ($190 A
TON).

6. COMMENT: IF THE COST OF PRODUCTION IS ACTUALLY ABOVE THE
SUPPORT PRICE, AS KARACABEY ASSERTS, THEN THE CONSEQUENCES OF
THE GOVERNMENT'S PRICE POLICY WILL PROBABLY BE A REDUCTION IN
WHEAT ACREAGE NEXT YEAR WHICH COULD LEAD TO THE ELIMINATION
OF EXPORTABLE WHEAT SURPLUSES BY 1980. GIVEN THAT CURRENT
WHEAT SURPLUSES WERE PARTIALLY GENERATED BY UNECONOMICALLY HIGH
SUPPORT PRICES, THE ECONOMY AS A WHOLE WILL BENEFIT FROM A
REALLOCATION OF RESOURCES AWAY FROM WHEAT TO MORE ECONOMICALLY
EFFICIENT CROPS; HOWEVER, THE LONG RUN IMPLICATION OF THIS

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POLICY DECISION IS THAT TURKEY MAY RETURN TO BEING A NET
GRAIN IMPORTER DURING 1980. DILLON

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